

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
HENRY ESCHWEGE, DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE

SELECT COMMITTEE ON SMALL BUSINESS
UNITES STATES SENATE

SEN 05900

ON

SBA'S 7(a) LOAN PROGRAM

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

WE ARE HERE TODAY TO DISCUSS THE SMALL BUSINESS ADMINIS-
TRATION'S (SBA'S) 7(a) LOAN PROGRAM AND AGENCY ACTIONS STILL
NEEDED TO STRENGTHEN LOAN APPROVAL AND LOAN SERVICING.
PRESENTLY THE TOTAL LOAN PORTFOLIO IS ABOUT \$6.8 BILLION
CONSISTING OF GUARANTEED, IMMEDIATE PARTICIPATION, AND DIRECT
LOANS.

PUBLIC LAW 93-386 REQUIRED THE GENERAL ACCOUNTING
OFFICE TO CONDUCT A FULL-SCALE AUDIT OF THE SMALL BUSINESS
ADMINISTRATION. AS A RESULT WE ISSUED EIGHT REPORTS TO THE
CONGRESS IN 1975 AND 1976. OUR RECENT FOLLOW-UP REPORT
DATED AUGUST 21, 1979, (CED-79-103) POINTS OUT THAT MUCH
OF THE CORRECTIVE ACTION PROMISED BY SBA HAS NOT BEEN
TAKEN. OUR FEBRUARY 1976 REPORT SPECIFICALLY DISCUSSED
PROBLEMS IN THE 7(a) LOAN PROGRAM AND STRESSED THE NEED
FOR MANAGEMENT ATTENTION (GGD-76-24).



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- SBA HAD APPROVED LOANS FOR QUESTIONABLE PURPOSES, SUCH AS TRANSFERRING RISK OF LOAN REPAYMENT FROM BANKS AND OTHER CREDITORS TO THE AGENCY ITSELF,
- IN CERTAIN CASES, SBA HAD NOT ANALYZED THE PROSPECTIVE BORROWERS' FINANCIAL CONDITION ADEQUATELY OR VERIFIED THE ADEQUACY OF COLLATERAL PLEDGED, AND
- SBA HAD NOT EFFECTIVELY STEPPED IN WHERE NEEDED TO INCREASE THE CHANCES OF BORROWER SUCCESS AND LOAN REPAYMENT.

ALTHOUGH SBA'S STANDARD OPERATING PROCEDURES PROVIDED A SOUND BASIS FOR EVALUATING THE POTENTIAL SUCCESS OF A LOAN APPLICANT, PROBLEMS OCCURRED BECAUSE SBA DID NOT FULLY IMPLEMENT THESE PROCEDURES. A BASIC PROBLEM WHICH PERMEATED THE ENTIRE LOAN PROCESS WAS A SHORTAGE OR IMPROPER ALIGNMENT OF PERSONNEL AT THE DISTRICT OFFICE LEVEL. THE REPORT CONTAINED A TOTAL OF 17 RECOMMENDATIONS TO THE SBA ADMINISTRATOR TO CORRECT THE PROBLEMS.

SBA AGREED WITH OUR RECOMMENDATIONS AND ACKNOWLEDGED THAT, TO ACCOMMODATE THE LARGE DEMAND FOR ASSISTANCE, MORE PERSONNEL WOULD BE NEEDED TO PROCESS LOANS IN ACCORDANCE WITH STANDARD OPERATING PROCEDURES.

OUR FOLLOWUP SHOWED THAT IN THE 3 YEARS SINCE WE ISSUED OUR REPORT, SBA HAD NOT FILLED ALL THE POSITIONS AUTHORIZED BY THE CONGRESS. AS A RESULT, SBA FIELD OFFICES CONTINUE TO PROCESS AND SERVICE LOANS WITHOUT PERFORMING ADEQUATE ANALYSIS AND OTHER REQUIREMENTS SPELLED OUT IN ITS PROCEDURES.

CONTINUED DISREGARD FOR
ESTABLISHED POLICIES AND
PROCEDURES

SBA IS STILL NOT FOLLOWING ITS OWN PROCEDURES FOR APPROVING AND SERVICING LOANS UNDER THE 7(a) PROGRAM. IN THE 80 RANDOMLY SELECTED LOANS WE REVIEWED IN FOUR DISTRICT OFFICES, WE FOUND THAT:

--AT LEAST PART OF THE LOAN APPROVAL PROCESS WAS INADEQUATELY PERFORMED FOR 76 LOANS.

--SERVICING WAS INADEQUATE FOR 68 LOANS.

--MANAGEMENT ASSISTANCE WAS INADEQUATE FOR EIGHT LOANS.

SOME LOANS CONTINUED TO BE APPROVED FOR QUESTIONABLE PURPOSES. THESE INCLUDED LOANS WHICH TRANSFERRED THE RISK FROM CREDITORS TO SBA OR REFINANCED EXISTING SBA LOANS TO PROTECT THEM; LOANS WERE ALSO MADE TO BORROWERS WHO APPARENTLY HAD THE ABILITY TO SECURE FINANCING WITHOUT AN SBA GUARANTEE. OTHER QUESTIONABLE LOANS RESULTED FROM INADEQUATE ANALYSIS.

SERVICING DEFICIENCIES INCLUDED FAILURE TO VERIFY THAT LOAN PROCEEDS WERE USED FOR INTENDED PURPOSES, FAILURE TO MAKE FOLLOWUP FIELD VISITS, AND FAILURE TO OBTAIN AND ANALYZE BORROWERS' FINANCIAL STATEMENTS TO EVALUATE PROGRESS. MANAGEMENT ASSISTANCE, WHEN PROVIDED, WAS NOT ALWAYS ADEQUATE TO MEET THE BORROWER'S NEEDS. THESE LATEST DEFICIENCIES ARE SIMILAR TO THOSE DISCUSSED IN OUR FEBRUARY 1976 REPORT WHICH WAS BASED ON OUR REVIEW OF 980 LOANS IN 24 SBA DISTRICT OFFICES.

INDICATIVE OF CONTINUING PROBLEMS IS THE INCREASED LOSS RATE EXPERIENCED IN THE 7(a) LOAN PROGRAM DURING THE LAST FEW YEARS. FOR FISCAL YEARS 1975-78, SBA'S LOSS-RATE, FOR ALL DISTRICT OFFICES, HAS INCREASED FROM 2.66 PERCENT TO 3.64 PERCENT.

THE 7(a) PROGRAM HELPS MANY SMALL BUSINESSES; HOWEVER, THE EXISTING ADMINISTRATIVE PROBLEMS DIMINISH PROGRAM EFFECTIVENESS.

LET ME ELABORATE SOMEWHAT ON THE MANAGEMENT WEAKNESSES WHICH CONTINUE TO EXIST.

DEBT REPAYMENT

SBA OPERATING PROCEDURES STATE THAT DEBTS SHOULD NOT BE TRANSFERRED FROM PRIVATE TO GOVERNMENT HANDS, BUT THAT A CERTAIN AMOUNT OF REFINANCING IS FREQUENTLY NECESSARY IN ANY GROWING BUSINESS. LOAN SPECIALISTS MUST EXERCISE JUDGMENT AT ALL TIME SO THAT LOAN PROCEEDS DO NOT BAIL OUT BANKS OR OTHER CREDITORS. IF LOAN PROCEEDS ARE USED FOR DEBT REFINANCING, LOAN SPECIALISTS MUST CAREFULLY DOCUMENT IN THEIR LOAN EVALUATION REPORTS THE JUSTIFICATION FOR DEBT PAYMENTS AND ITEMIZE IN THE LOAN AUTHORIZATION THE DEBTS TO BE PAID.

FORTY-FIVE OF THE 80 LOANS IN OUR FOLLOWUP SAMPLE WERE USED AT LEAST PARTLY FOR DEBT PAYMENTS TO PARTICIPATING BANKS AND OTHER CREDITORS, AND TO REFINANCE SBA LOANS. IN SOME CASES, THE DEBT PAYMENT COVERED MORE THAN ONE OF THE THREE CATEGORIES. TWENTY-SIX OF THOSE 45 LOANS WERE

USED FOR DEBT PAYMENT TO PARTICIPATING BANKS, 31 WERE USED FOR DEBT REPAYMENT TO OTHER CREDITORS, AND 10 WERE USED TO REFINANCE SBA LOANS.

FOR 24 LOANS, A MAJOR PORTION (50 PERCENT OR MORE) WAS USED TO PAY AN EXISTING DEBT. OF THESE, 14 LOANS DID NOT FULLY EXPLAIN THE CIRCUMSTANCES OF THE DEBT ACCUMULATION AND APPARENTLY TRANSFERRED RISK FROM CREDITORS TO SBA.

REDUCTION IN BANKS' EXPOSURE

OF THE 26 LOANS REVIEWED WHERE PROCEEDS REPAID PARTICIPATING BANK LOANS, 6 RESULTED IN REDUCING THE BANK'S EXPOSURE, THEREBY TRANSFERRING THE RISK OF LOAN DEFAULT FROM THE BANK TO SBA. FOR THESE LOANS, THE LOAN OFFICER DID NOT ADEQUATELY JUSTIFY THE BANK'S REDUCED EXPOSURE. IN ONE OF THE SIX CASES, WE BELIEVE A BANK WAS BAILED OUT BECAUSE IT WAS ABOUT TO SUSTAIN A LOSS.

AN EXAMPLE OF HOW BANK EXPOSURE WAS REDUCED IS A \$495,000 LOAN WITH A 90-PERCENT SBA GUARANTEE MADE ON JANUARY 3, 1977. PROCEEDS WERE TO BE USED AS FOLLOWS: \$214,000 TO PURCHASE EQUIPMENT, \$173,500 TO REPAY THE PARTICIPATING BANK, \$78,000 TO REPAY THE FORMER OWNERS, AND \$29,500 FOR WORKING CAPITAL. THE BANK'S EXPOSURE BEFORE THE LOAN WAS MADE WAS \$173,500. ITS EXPOSURE AFTER THE LOAN WAS DISBURSED WAS \$49,500, RESULTING IN A REDUCTION IN EXPOSURE OF \$124,000.

THE LOAN OFFICER INDICATED THAT THE BANK LOAN OF \$173,500 WAS UNSECURED, BUT THE BORROWER HAD A GOOD RECORD OF REPAYMENT. BANK OFFICIALS TOLD SBA THAT IT WAS NECESSARY TO REFINANCE

THE LOAN SINCE THE BORROWER WANTED TO EXTEND THE TERMS BEYOND THE BANK'S ABILITY.

WE BELIEVE THE REDUCTION IN EXPOSURE WAS NOT FULLY JUSTIFIED IN THE LOAN OFFICER'S REPORT BECAUSE HE DID NOT EXPLORE OR RECOMMEND OTHER ALTERNATIVES IN LIEU OF SUBSTANTIALLY REDUCING THE BANK'S EXPOSURE ON AN UNSECURED LOAN.

DEBT REPAYMENT TO OTHER CREDITORS

WE NOTED THAT 31 LOANS WERE USED TO PAY OFF BORROWERS' DEBTS OWED TO CREDITORS, NONPARTICIPATING BANKS, OR BOTH. FOR 19 OF THE 31 LOANS, 50 PERCENT OR MORE OF THE LOAN PROCEEDS WERE USED TO PAY EXISTING DEBTS. CONSEQUENTLY, THE LOAN OFFICERS WERE REQUIRED TO FULLY EXPLAIN THE CIRCUMSTANCES WHICH RESULTED IN THE DEBT ACCUMULATION, WHY THE APPLICANT COULD NOT OR DID NOT PAY THE PRIOR LOAN AS AGREED, AND HOW THE NEW LOAN WOULD IMPROVE THE APPLICANT'S EARNINGS AND FINANCIAL CONDITION. ONLY IN EIGHT CASES DID THE LOAN OFFICER'S REPORT MEET THIS REQUIREMENT.

REFINANCING SBA LOANS

ACCORDING TO SBA PROCEDURES, AN ADDITIONAL OR REFUNDING LOAN SHALL NOT BE MADE IF THE PRIMARY PURPOSE IS TO PROTECT AN EXISTING SBA LOAN. REFINANCING A PRIOR SBA LOAN IS OTHERWISE ACCEPTABLE PROVIDED THE NEW LOAN IS SUBJECT TO THE SAME CREDIT STANDARDS AS THE ORIGINAL LOAN.

TWO OF THE 10 LOANS WE REVIEWED WERE APPROVED TO BUSINESSES IN FINANCIAL TROUBLE WHERE REPAYMENT OF THE EXISTING

LOANS WAS QUESTIONABLE. THE APPROVALS WERE APPARENTLY AN ATTEMPT BY THE DISTRICT OFFICES TO PROTECT AN EXISTING LOAN.

LOANS MADE TO BORROWERS WHO
COULD APPARENTLY SECURE
FINANCING WITHOUT SBA GUARANTEE

SBA PROCEDURES REQUIRE LOAN SPECIALISTS TO REVIEW PERSONAL FINANCIAL STATEMENTS OF PROPRIETORS, PARTNERS, OFFICERS, AND STOCKHOLDERS WITH 20 PERCENT OR MORE OWNERSHIP, FOR ASSETS WHICH COULD BE USED TO RAISE FUNDS IN LIEU OF OBTAINING PART OR ALL OF AN SBA LOAN. THE APPLICANTS FOR 31 OF THE 80 LOANS SAMPLED APPEARED TO HAVE SUFFICIENT PERSONAL ASSETS TO USE OR PLEDGE AS COLLATERAL FOR SECURING A LOAN ON THE OPEN MARKET. IN 18 CASES, THE LOAN OFFICER DID NOT COMMENT ON WHETHER FUNDS WERE AVAILABLE FROM OTHER SOURCES AS REQUIRED BY SBA PROCEDURES.

SBA ISSUED A NEW AND MORE SPECIFIC POLICY STATEMENT ON MAY 21, 1979, WHICH STATES THAT CASH, OTHER INVESTMENTS, AND OTHER LIQUID ASSETS OF THE PRINCIPALS IN THE BUSINESS SHOULD BE CONSIDERED WHEN THEY EXCEED 75 PERCENT OF THE SBA GUARANTEE REQUESTED. NEITHER FAMILY OCCUPIED RESIDENCES NOR CASH SURRENDER VALUE OF LIFE INSURANCE WILL BE CONSIDERED AS PERSONAL ASSETS AVAILABLE FOR BUSINESS PURPOSES.

WITH THE IMPLEMENTATION OF THIS NEW POLICY, SBA WILL RELY ON THE PARTICIPATING BANK'S JUDGMENT TO ENSURE THE MAXIMUM USE OF BUSINESS ASSETS AND OUTSIDE PERSONAL RESOURCES. NO CHANGES WERE MADE IN SBA'S POLICY AS IT RELATED TO DIRECT LOANS.

INADEQUATE ANALYSIS RESULTS
IN QUESTIONABLE LOANS

OUR FOLLOWUP SHOWED THAT, IN MANY CASES, LOAN ANALYSIS CONTINUED TO BE INADEQUATE.

APPLICANTS' FINANCIAL CONDITION
NOT ADEQUATELY ANALYZED OR DOCUMENTED

ACCORDING TO SBA PROCEDURES, LOAN SPECIALISTS ARE RESPONSIBLE FOR A COMPLETE PROFESSIONAL REVIEW AND ACCURATE ANALYSIS OF THE LOAN APPLICATION AND SUPPORTING DOCUMENTS. THE LOAN OFFICER'S REPORT SHOULD BE SUFFICIENTLY COMPREHENSIVE AND ACCURATE THAT A REVIEWING OFFICIAL CAN MAKE A SOUND RECOMMENDATION OR TAKE FINAL ACTION WITHOUT REFERRING TO THE SUPPORTING DOCUMENTS.

THE RESULTS OF OUR REVIEW OF THE 80 SAMPLED LOANS SHOWED THAT:

- SIXTY-FOUR LOANS HAD AN INADEQUATE CASH FLOW ANALYSIS.
- LOAN SPECIALISTS ACCEPTED APPLICANTS' PROJECTED INCOME FIGURES AT FACE VALUE FOR 69 LOANS.
- LOAN SPECIALISTS DEVELOPED CURRENT AND DEBT TO NET WORTH RATIOS IN MOST CASES BUT, EXCEPT FOR 18 LOANS, DID NOT MAKE COMPARISONS TO INDUSTRY AVERAGES AS RECOMMENDED IN SBA PROCEDURES.
- IN 31 CASES, THE APPLICANTS' NET WORTH WAS NOT ADEQUATELY CONSIDERED AS REQUIRED AND APPEARED SUBSTANTIAL ENOUGH TO NOT WARRANT ALL OR PART OF THE LOAN.

--OFTEN THE LOAN SPECIALIST DID NOT HAVE THE REQUIRED PRIOR YEAR BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS TO PERFORM THE BEST ANALYSIS OF THE APPLICANTS' BUSINESS.

COLLATERAL NOT APPRAISED
FOR VALUE OR EXISTENCE

SBA PROCEDURES REQUIRE THAT COLLATERAL SECURING EACH LOAN BE CAREFULLY EVALUATED. IN COMMENTING ON OUR PRIOR REPORT, SBA STATED THAT BECAUSE OF STAFF SHORTAGES IN THE APPRAISAL SERVICES AREA AND THE DEMAND FOR THESE SERVICES IN SERVICING/LIQUIDATION WORK, IT HAD TO CONTINUE TO RELY ON BANK CAPABILITY FOR APPRAISING COLLATERAL PRIOR TO LOAN APPROVAL AND TO HIRING FEE APPRAISERS WHEN NECESSARY. OUR FOLLOWUP SHOWED THAT NO ONE HAD APPRAISED THE COLLATERAL FOR 49 OF THE 80 SAMPLED LOANS.

SBA OFFICIALS ADVISED US THAT WHEN A LOAN IS SMALL AND COLLATERAL IS OF MINOR IMPORTANCE, VALUATION OF THE COLLATERAL BY THE LOAN OFFICER IS ACCEPTABLE. CONVERSELY, AN APPRAISAL SHOULD BE OBTAINED WHEN THE LOAN IS LARGE AND COLLATERAL IS AN IMPORTANT FACTOR IN THE LOAN APPROVAL. WHETHER TO OBTAIN AN APPRAISAL IS A MATTER OF JUDGMENT BASED ON THE FACTS AND CIRCUMSTANCES OF THE CASE.

FOR THE 49 LOANS WHERE COLLATERAL WAS NOT APPRAISED, THE LOAN OFFICER IN MOST CASES DISCUSSED ITS ADEQUACY, BUT DID NOT COMMENT ON WHETHER THE COLLATERAL WAS AN IMPORTANT FACTOR IN THE LOAN APPROVAL DECISION.

SBA LOAN SERVICING INADEQUATE

SBA DEFINES SERVICING ASSISTANCE AS RECOGNIZING THAT A PROBLEM OR POTENTIAL PROBLEM EXISTS, IDENTIFYING THE PROBLEM'S UNDERLYING CAUSE, AND DETERMINING THE APPROPRIATE SOLUTION. THE LOAN SERVICING FUNCTION BEGINS AT THE TIME OF INITIAL DISBURSEMENT. SERVICING PERSONNEL ARE EXPECTED TO BECOME FAMILIAR WITH LOANS BY REVIEWING DOCUMENTS ON FILE AND VISITING BORROWERS.

IN OUR PRIOR AUDIT WE FOUND THAT SBA'S SERVICING WAS LIMITED. SBA AGREED THAT A MAJOR PROBLEM IN PROVIDING EFFECTIVE LOAN SERVICING WAS INADEQUATE STAFFING. ALTHOUGH SBA REQUESTED INCREASED FIELD STAFFING FOR PORTFOLIO MANAGEMENT, THE POSITIONS HAVE NOT ALWAYS BEEN AUTHORIZED, AND EVEN WHEN AUTHORIZED, HAVE NOT BEEN FILLED. FOR EXAMPLE, FOR 1979, SBA REQUESTED 1,224 POSITIONS, HOWEVER, THE OFFICE OF MANAGEMENT AND BUDGET REQUESTED AND OBTAINED APPROVAL FOR ONLY 995 POSITIONS FROM THE CONGRESS. AS OF AUGUST 31, 1979, SBA HAD ONLY FILLED 850 OF ITS 995 AUTHORIZED POSITIONS. OUR REVIEW OF PORTFOLIO MANAGEMENT DIVISION STAFFING IN THE TWO REGIONS INCLUDED IN OUR FOLLOWUP SHOWED THAT FROM JUNE 1975 TO AUGUST 1978 THE BOSTON REGION HAD A 14-PERCENT INCREASE IN STAFF AND THE ATLANTA REGION HAD A 42-PERCENT INCREASE. HOWEVER, THE TOTAL PORTFOLIO FOR EACH REGION INCREASED BY 84 PERCENT DURING THIS SAME PERIOD.

ALTHOUGH STAFFING HAS INCREASED SOMEWHAT, LOAN SERVICING CONTINUES TO BE INADEQUATE. THE PROBLEMS INCLUDE FAILURE TO

VERIFY THE USE OF PROCEEDS, MAKE SITE VISITS, OBTAIN REASONS WHY BANKS HAVE REFUSED TO MAKE LOANS, AND FAILURE TO ANALYZE FINANCIAL STATEMENTS.

USE OF PROCEEDS NOT VERIFIED

SBA DID NOT ADEQUATELY VERIFY THE USE OF PROCEEDS OR DOCUMENT ITS VERIFICATION FOR 40 OF THE 80 LOANS.

SBA HAS TWO WAYS TO ENSURE THAT LOAN PROCEEDS HAVE BEEN USED FOR AUTHORIZED PURPOSES: (1) BY EXAMINING SETTLEMENT SHEETS SUBMITTED BY BANKS FOR SBA DISTRICT COUNSEL REVIEW, SHOWING HOW LOAN PROCEEDS WERE DISBURSED OR (2) BY CHECKING THE USE OF LOAN PROCEEDS DURING AN INITIAL FIELD VISIT BY THE LOAN SPECIALIST TO THE BORROWER.

SETTLEMENT SHEETS WERE NOT AVAILABLE FOR THREE LOANS. SBA CANNOT VERIFY THE USE OF PROCEEDS WITHOUT A SETTLEMENT SHEET. FOR THE LOANS WHERE SETTLEMENT SHEETS WERE ON FILE, SBA DID NOT REVIEW OR DOCUMENT ITS REVIEW OF THE USE OF PROCEEDS IN 40 CASES. IN ADDITION, INITIAL FIELD VISITS WERE NOT MADE FOR 46 OF THE 80 LOANS.

BORROWERS' PROBLEMS AND PROGRESS
NOT KNOWN TO SBA

FOR 53 OUT OF 80 LOANS, SBA DID NOT REQUIRE PARTICIPATING BANKS TO DISCLOSE THEIR REASONS FOR DECLINING LOANS WITHOUT AN SBA GUARANTEE; FOR 46 LOANS, SBA DID NOT MAKE INITIAL FIELD VISITS TO BORROWERS; AND FOR 60 LOANS, IT DID NOT OBTAIN BORROWERS' FINANCIAL STATEMENTS. THESE PROBLEMS ARE SIMILAR TO THE ONES DISCUSSED IN OUR PRIOR REPORT.

SBA DISTRICT OFFICIALS CONTINUE TO CONSIDER AN APPLICATION FOR A GUARANTEED LOAN AS EVIDENCE THAT A BANK WOULD NOT MAKE A DIRECT LOAN. AS A RESULT, LETTERS OF DECLINE ARE NOT DEEMED NECESSARY.

OFFICIALS IN ONE DISTRICT OFFICE TOLD US THAT THEY DO NOT MAKE REQUIRED INITIAL FIELD VISITS BECAUSE OF AN EXCESSIVE WORKLOAD. THE AVERAGE CASELOAD FOR EACH LOAN SPECIALIST IN THE FOUR DISTRICTS, AS OF OCTOBER 31, 1978, RANGED FROM 490 TO 2,052 LOANS PER LOAN SPECIALIST.

FINANCIAL STATEMENTS ARE REQUIRED AT INTERVALS STATED IN THE LOAN AGREEMENT. THE SERVICING GROUP KNOWS WHEN STATEMENTS ARE REQUIRED AND, IF THEY ARE NOT RECEIVED, SENDS LETTERS AND MAKES TELEPHONE REQUESTS. SBA OFFICIALS SAID, HOWEVER, THAT THEY CAN DO LITTLE ELSE TO ASSURE RECEIPT OF STATEMENTS. THERE WERE CASES WHERE WE SAW NO EVIDENCE THAT THE FINANCIAL STATEMENTS HAD BEEN ANALYZED BY THE LOAN SPECIALIST. OFFICIALS BELIEVED THE LOAN SPECIALISTS WERE REVIEWING STATEMENTS THAT WERE RECEIVED, BUT PROBABLY WERE NOT DOCUMENTING THEIR REVIEWS ADEQUATELY.

MANAGEMENT ASSISTANCE--
LIMITED IMPROVEMENT

IN OUR PRIOR AUDIT WE FOUND THAT MANAGEMENT ASSISTANCE--DESIGNED TO FOSTER THE ESTABLISHMENT, GROWTH, AND SUCCESS OF SMALL BUSINESS--WAS LIMITED AND UNTIMELY.

IN OUR FOLLOWUP AUDIT WE FOUND THAT SOME BORROWERS WERE NOT PROVIDED ADEQUATE MANAGEMENT ASSISTANCE. SPECIFICALLY,

MANAGEMENT ASSISTANCE, IN OUR OPINION, WAS INADEQUATE FOR EIGHT LOANS.

SBA HAS TAKEN STEPS TO IDENTIFY WHICH BORROWERS NEED MANAGEMENT ASSISTANCE. SINCE OCTOBER 1978, THE FIELD OFFICES HAVE BEEN REQUIRED TO PREPARE A SUMMARY MANAGEMENT RATING FORM FOR EACH BORROWER AT THE TIME OF LOAN APPLICATION. SBA BELIEVES THE FORM WILL ESTABLISH A SYSTEMATIC METHOD OF ASSESSING MANAGERIAL POTENTIAL, IDENTIFYING PROSPECTIVE BORROWERS WHO NEED MANAGEMENT ASSISTANCE, AND EXPEDITING THE REFERRAL OF CLIENTS TO THE MANAGEMENT ASSISTANCE STAFF. ALSO, IT EXPECTS THAT COORDINATION BETWEEN THE MANAGEMENT ASSISTANCE AND FINANCING DIVISIONS WILL BE IMPROVED.

REQUIRED AGENCY ACTIONS

BECAUSE OUR FOLLOW-UP REVIEW SHOWED THAT SBA HAD NOT IMPLEMENTED MANY OF OUR PRIOR RECOMMENDATIONS, WE RECOMMENDED THAT THE ADMINISTRATION TAKE EFFECTIVE ACTIONS TO IMPLEMENT CORRECTIVE MEASURES.

THE ADMINISTRATOR AGREED WITH US AND DIRECTED THAT HIS STAFF TAKE THE FOLLOWING ACTIONS FOR ALL GAO REPORTS ISSUED SINCE 1975, INCLUDING THOSE UNDER PUBLIC LAW 93-386.

--IN THOSE SITUATIONS WHERE THE RECOMMENDED ACTION HAS NOT BEEN TAKEN, EVALUATE THE REASONS AND TAKE APPROPRIATE ACTION.

--IN THOSE CASES WHERE THE RECOMMENDATION MAY NO LONGER BE APPROPRIATE, GIVE THE REASONS OR JUSTIFICATION FOR NOT REQUIRING ACTION.

--ESTABLISH AN APPROPRIATE MONITORING SYSTEM ON A
CONTINUING BASIS TO ASSURE THAT ACTIONS ARE
IMPLEMENTED.

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MR. CHAIRMAN, THIS CONCLUDES OUR PREPARED STATEMENT.
WE WILL BE PLEASED TO RESPOND TO ANY QUESTIONS.